SYNOPSIS OF MAJOR USDA PROGRAM ISSUES
(December 1999)

FARM AND FOREIGN AGRICULTURAL SERVICES

1. Federal Crop Insurance

Crop insurance has become the U.S. Department of Agriculture's (USDA) farmer "safety net". The Federal Crop Insurance Reform Act of 1994 did away with the traditional crop loss disaster payments, and the Federal Agricultural Improvement and Reform (FAIR) Act of 1996 phased out the traditional crop deficiency payments. Between crop years 1996 and 1999, crop insurance coverage dropped from 205 million acres to 195.6 million, and the Government's total insurance liability increased from $26.9 billion to $32.1 billion, as of October 8, 1999. This reduction in total acreage coverage coincided with the elimination of required insurance coverage for participation in other USDA programs. For 1999 the Risk Management Agency (RMA) estimated total annual premiums would be about $2.3 billion. Total 1999 indemnities will probably exceed this estimate due to the disasters and low commodity prices that occurred in the 1999 crop year.

In late 1999, Congress appropriated, or authorized, about $13 billion in crop loss payments, supplemental AMTA payments, tobacco payments, oilseed payments, livestock assistance, dairy assistance, advanced 2000 AMTA payments, and additional crop insurance premium assistance ($400 million). The Congress also funded the Cotton Step 2 Program which is estimated to cost between $1 billion and $2 billion from now through July 31, 2003. These monies are to compensate producers for the low farm prices and crop losses incurred during the 1999 crop year. There also have been a number of bills introduced directed towards crop insurance reform during the past year, none of which have been enacted. RMA has also been mandated to implement new programs and initiatives.

Our audits have identified a number of areas where the crop insurance programs need to be strengthened and where we need to expend resources in future reviews:

Oversight by Reinsured Companies and RMA-Current oversight and monitoring procedures by the reinsured companies and by RMA need to be strengthened. In our audit of "Quality Controls of Crop Insurance Determinations" (Audit Report No. 05099-2-KC), we found that the reinsured companies' quality control systems did not produce meaningful improvements in program delivery and ensure program integrity, even though the systems generally complied with FCIC requirements. RMA is in the process of establishing a new procedure to evaluate the effectiveness of the reinsured quality control process. However, this new system has yet to be evaluated as a means to ensure good quality control procedures being followed by the reinsured companies. In our audit of "Crop Insurance for Nurseries" (Audit Report No. 05099-1-At), we found that RMA's system for identifying producers with abnormal loss histories and sanctioning them was not effective.

Conflict of Interest-Our audits (Audit Report Nos. 05099-2-KC, 05601-5-Te, and 05099-2-At) have shown continuing conflict-of-interest problems in the multi-peril crop program delivery system. The conflicts involved policyholders, sales agents, loss adjustors, and reinsured companies' employees. For example, in our "Fresh Market Tomatoes" (Audit Report No. 05099-1-at) we disclosed an instance where the producer's employee received over $280,000 in commissions over 2 crop years while acting as a subagent selling insurance to his employer. The subagent's employer received over $2.4 million in crop insurance indemnities, based partly on information provided by the employee to the insurance adjusters. Our current audit field work continues to disclose conflicts of interest as potential problems and OIG has ongoing investigations that are based upon the potential of conflict-of-interest conditions.

Verification By Loss Adjusters-Verification by loss adjusters is critical to program overpayments integrity. However, our audits have pointed out material weaknesses and shortcomings during this process, resulting in indemnity overpayments and other program abuses (Audit Report Nos. 05099-2-At, 05601-5-At, 05099-1-At).

Yield and Total Liability-Our audits have identified a number of indemnity overpayments resulting from overstated or unreasonable yields and total liability (Audit Report Nos. 05099-2-At and 05001-2-Te). Ongoing efforts indicate that the systemic edit checks were insufficient to detect such overstated or inflated yields (Audit Report No. 05099-8-KC).

Insurance Servicing to Limited Resources Producers-Our audit work has shown that the Catastrophic Risk Protection Program (CAT) may not be providing the expected "safety net" coverage to all farmers, particularly low-income or other socially disadvantaged farmers (Audit Report Nos. 05099-1-KC and 05099-6-KC).

2. Farm Credit

Overall management of the $21 billion farm loan portfolio continues to be of major importance to the Department. The farm credit program provides loans for the maintenance, purchase, development, and operation of family farms and ranches. A major emphasis of this program is to provide assistance to beginning and socially disadvantaged farmers and ranchers.

We continue to work with FSA in many segments of farm credit. In addition to our ongoing civil rights review, our audit work continues on direct and guaranteed farm ownership and direct and guaranteed farm operating loans. We plan to focus these reviews on whether borrowers met the eligibility requirements and whether loan proceeds were used for the intended purposes. We also plan to examine guaranteed loan making and loan servicing.

In a recent survey, we found that FSA had not implemented adequate controls to ensure loans were processed and servicing actions were completed in accordance with the Federal Agriculture Improvement and Reform (FAIR) Act of 1996. We identified a number of borrowers who had prior debt forgiveness and then received direct and guaranteed loans after April 4, 1996, when the new statute went into effect. We recommended that FSA implement controls that will ensure loan-making and loan-servicing actions are processed in compliance with current requirements.

FSA agreed to recover the unauthorized loan assistance and implement computer controls to prevent further unauthorized assistance.

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FOOD, NUTRITION AND CONSUMER SERVICES

3. Food Stamp Program

The Food Stamp Program (FSP), administered by the Food and Nutrition Service (FNS), helps put food on the table of some 8.3 million households and 20 million individuals each day. It provides low-income households with coupons or electronic benefits they can use like cash at participating grocery stores to ensure that they have access to healthy food. Because of the size and vulnerability of the FSP, we annually devote a large number of staff days auditing this program. Audit issues which we continue to pursue include the following.

<u>Electronic Benefit Transfer (EBT) Systems Implementation</u> - All States are mandated to implement EBT for food stamps by 2002. Currently, 40 States and the District of Columbia have operational systems. We have audited controls over these systems and will continue to audit systems as States further implement EBT. EBT systems reviewed since April 1999 include Oregon, Colorado, Missouri, and Minnesota. (Audit Reports Nos. 27801-3-SF, 27801-4-KC, and 27099-18-Ch).

<u>Household and Retailer Eligibility</u> - We have performed reviews of both recipient and retailer eligibility. Audits and investigations have found many recipients and retailers ineligible to participate in the program. We plan to review contracts FNS has with private vendors to conduct on-site retailer visits. We also performed computer matches to identify food stamp recipients who were illegally obtaining benefits. Our cross State computer matched identified recipients who were obtaining benefits in more than one State. FNS is studying the feasibility of implementing a nationwide database to identify recipients participating in more than one State at the same time (Audit Report No. 27601-9-KC).

<u>Administrative Costs</u> - States continue to claim costs that should not be reimbursed by FNS. This fiscal year, we plan to perform a nationwide review of administrative costs.

4. Child and Adult Care Food Program

The Child and Adult Care Food Program (CACFP) is intended to ensure that children and adults who attend day-care facilities receive nutritious meals. Under CACFP, day-care providers are reimbursed for meals served to children in their care. The program is administered by State agencies through sponsors and independent centers who are generally public or private nonprofit organizations. Sponsors act as the link between the State agency and day-care centers and providers. In fiscal year (FY) 1998, centers and providers served 2.6 million participants at a cost of $1.6 billion.

Our audits of CACFP sponsors uncovered a widespread breakdown of controls over the CACFP. As a result of the problems found, a Presidential Initiative was launched to identify sponsors who are abusing this program, to remove them from the program, and to prosecute them, if necessary. This initiative, named Operation "Kiddie Care," has focused on the work of sponsors who administer the program in day-care homes and centers and disburse Government payments to those child care facilities. To date, 40 sponsors have been identified with program deficiencies so serious that they should be terminated from CACFP if they fail to correct the shortcomings. These 40 sponsors had been receiving approximately $78.6 million annually in food and administrative funds. Twenty of the 40 sponsors, that received $42.3 million annually, have been terminated from program participation. Our initiative will continue into FY 2000. In August 1999, we issued an audit report which summarized the results of our Presidential initiative. We recommended that FNS study alternative methods of delivering a meal program to children and adults that addresses the problems we found in the private, nonprofit organizations included in our review. FNS also needs to strengthen controls by implementing specific recommendations put forth in earlier reports and by FNS' task force including the development of standards for approving new sponsors, renewing continuing sponsors' agreements, and terminating deficient sponsors (Audit Report No. 27601-7-SF).

FOOD SAFETY

5. Food Safety Issues

Food safety and quality issues have received considerable attention over the last few years. Hazard Analysis and Critical Control Points (HACCP) is a systematic approach to food safety, wholesomeness, and prevention of economic adulteration. HACCP is intended to identify the critical points in food processing and establish controls to prevent adulteration caused by microbes, chemicals or physical hazards. The Food Safety and Inspection Service (FSIS) implemented the first and second phase of the HACCP component of the Pathogen Reduction, HACCP System in plants that slaughter and/or process meat and poultry. Phase One was implemented in January 1998 in over 300 large plants and Phase Two was implemented in January 1999 in over 2,000 small plants. These plants are required to have in place written and operating HACCP plans.

OIG began a food safety initiative in FY 1999 to review four areas in FSIS' meat and poultry inspection activities including: (1) the implementation of the pathogen reduction and HACCP systems; (2) compliance and district enforcement activities; (3) laboratory testing of meat and poultry products; and (4) inspection of imported meat and poultry products. These reviews are currently underway with the expected issuance of the reports during FY 2000.

Also critical is the need to ensure that criminal activity is identified and halted in cases involving the intentional contamination of food products consumed by the public; the processing and sale of adulterated meat, poultry, and egg products; and the substitution, adulteration, or other misrepresentation of food products regulated or inspected by USDA. Procedures are in place to assemble an Emergency Response Team of auditors and investigators to review these emergency situations. For example, a team was placed at the Hudson Foods plant after Hudson increased the amount of ground beef recalled to 25 million pounds because it was contaminated with e-coli bacteria, and investigators reviewed the outbreak of hepatitis A, which was linked to strawberries sold to the school lunch program and used in Michigan schools. The firm admitted it knew the strawberries were grown in Mexico. We will continue to review situations which compromise the safety of food.

NATURAL RESOURCES AND ENVIRONMENT

6. Forest Service (FS) Management and Program Delivery Issues

Management issues within the FS have proven resistant to change because of the agency's decentralized management structure.   The agency delegates broad authority to its field units (regions, forests, and ranger districts) without having an adequate system of internal controls to ensure polices established by top management are followed. As a result, agency actions often run counter to the intent of top management. Recent audits and evaluation reports have detailed areas where the agency needs to improve management of its programs. Audit Report Nos. 50801-1-Te and 08801-2-Te detail improvements needed in all aspects of managing grant programs. Audit Report No. 08801-10-At identifies serious weaknesses in the preparation and implementation of the environmental analyses required for timber sales. While FS has taken steps to improve management controls over its land adjustment program, field units still need to improve management controls to ensure that land transactions comply with laws and regulations and are in the best interest of the agency (Audit No 08801-5-SF). Another audit identified problems in how FS dealt with outside parties as related to timber sales (Audit Report No. 08099-146-SF). FS has not developed agency wide polices in this area. As the agency moves to increased use of partnerships with private groups to meet its mission requirements, direction is needed to ensure these relationships comply with existing laws. Upcoming audits will target agency use of the financial disclosure process to ensure the integrity of decisions made regarding management of natural resources. We will also review the effectiveness of new controls implemented in the land adjustment program and conduct a review of the agency's implementation of the Government Performance and Results Act (GPRA).

RESEARCH, EDUCATION AND ECONOMICS

7. Research Funding Accountability

In 1995, OIG auditors from three regions and headquarters met with members of the CSREES awards management and programs staffs to discuss repetitive findings in our reviews of institutional and individual grant recipients. Our analysis of cognizant agency reports and our own findings from several program areas disclosed that CSREES' management controls did not ensure sufficient monitoring, review, and accountability for the use of its funds to detect waste, fraud, or misuse.   For the past 5 years, we have continued to review the adequacy of agency controls over the use of research funds and the adequacy of agency procedures to provide reasonable assurance that these funds are protected against waste, fraud, and mismanagement.

We have conducted reviews in the four delivery systems -- direct administration, formula, competitive, and specified research funding. Our reviews of individual institutions and specific projects have repeatedly indicated that the controls over these funds are insufficient to provide reasonable assurance that they are being expended as intended. This deficiency results from the meager resources allocated by CSREES to post awards management, limited coverage under the single audit process because the programs are not large enough to warrant compliance supplements, deficient reporting requirements, and funding decisions that favor institutional development over research productivity.

This past year, we have reported on inadequate controls over facilities construction grants (Audit Report No. 50601-5-At) that allowed $2,576,926 to be expended by recipients after their grants had expired, $542,677 of unused funds that had not been timely deobligated, and $567,132 that had been improperly approved for operating and maintenance expenses. We also reviewed two 1890 Land Grant recipients (Audit Report Nos. 13011-1-Te and 13011-2-Te) and reported agency approval of unallowed expenditures, delinquent reporting on matching funds, incomplete close out of expired projects, and a general deficiency in the monitoring of progress and expenditures. From these two audits, we recommended the recovery of $1.2 million and $1.9 million respectively. We are also concerned that FY 2000 funds are being distributed without regulatory support (and therefore with questionable enforceability) for the eligibility and performance criteria required by the Agricultural Research, Education, and Extension Reform Act which became effective on October 1, 1999.

We have intensified our systematic coverage of the five delivery systems to determine the extent and materiality of these losses. We have begun a review of the effectiveness of CSREES controls over formula funds and will soon begin a survey on management controls over special research grants. We will analyze these findings, as well as the recommendations in A-133 audits, to provide the Department with recommendations on improving the reporting and oversight processes for post awards management.

8. Competitive Grants Program Compliance

The National Research Initiative was established in 1990 as a means to increase the amount and quality of science applied to high priority agricultural research issues. To achieve this, the program was to provide an openly competitive opportunity for the broadest sources and best scientists in the United States who might contribute, from previously underutilized and untapped resources, scientific breakthroughs and an expanded knowledge base to solve current problems and unforeseen threats to agricultural production. According to its authors, the success of the NRICGP was highly dependent on its open competitiveness based on the scientific merit of each individual proposal. According to critics of the program, it is this quality that provides the NRICGP its distinction from the other CSREES programs, formula funded and special research grants.

Our review of the NRICGP for FY ’s 1993 to 1996 (Audit Report No. 13601-1-At), disclosed that the distribution of funds continued to reflect the same distribution as the other programs in that they favored large institutions that generally have performed well at grantsmanship. We found an apparent correlation between those institutions that receive the majority of NRICGP research grants and their representation on the peer review panels that determined which proposals would be considered for funding. We also found that the Strengthening Program, created to assist less competitive institutions to enter into the agricultural field, had not adequately assisted small and mid-sized institutions as intended. Our survey of small and mid-sized institutions found that 67 percent were concerned about the fairness of the CSREES selection process. Finally, we found that for the period covered by our review, CSREES may have used research program funds to augment the 4 percent administrative set aside that Congress had earmarked in the NRICGP appropriation.

CSREES has disagreed with our recommendations on the distribution of Strengthening Program funds, full disclosure of grants eligibility and selection processes, the under funding of multi-disciplinary research, and the use of program funds to support peer review panels. OIG will elevate these issues to the attention of the REE Under Secretary.

RURAL DEVELOPMENT

9. Rural Rental Housing

The Rural Rental Housing (RRH) Program provides low-cost apartments to people with low incomes in rural areas. There are approximately 447,000 RRH units nationwide and apartment complexes pay an estimated $161 million in authorized management fees each year to owners and management agents. In FY 1998 the Government provided over $1.3 billion in rental assistance and interest credit subsidies for tenants residing in RRH apartment complexes. USDA currently has over $12 billion invested in RRH properties through its outstanding loans.

RRH programs are vulnerable to program fraud and abuse because of the large cash flows involved. The Office of Inspector General has worked with the Rural Housing Service (RHS) to detect fraud and abuse and remove from participation those who abuse the program. The report titled "Uncovering Program Fraud and Threats to Tenant Health and Safety," (Report No. 04801-6-CH) described the results of our team approach to identify and act on the worst offenders. Additional efforts to improve the RRH program will reform program regulations to better identify Identity-of-Interest (IOI) relationships and develop a loan classification system to identify and prioritize "at risk" properties.

RHS has developed a prototype Multifamily Housing Enforcement Program that includes: (1) liaison with the Washington, D.C., Department of Justice to encourage acceptance of multifamily housing cases for prosecution and to provide and receive training concerning programs and procedures, (2) a team of national and field office RHS staff trained in evaluation and program fraud detection, (3) coordination with the Department of Housing and Urban Development's Office of Enforcement to facilitate reviews of common program participants, (4) training for field staff in the review, determination, and evaluation of fraud and abuse, and in connection with the Office of the General Counsel, training on the legal process to bring action against parties who abuse the program, and (5) pursuit of statutory changes to improve the Department's ability to enforce program regulations.

ADMINISTRATION

10. Civil Rights Complaints

The Director of the Office of Civil Rights (CR) has full responsibility for investigation, adjudication and resolution of complaints of discrimination arising out of USDA employment activities or in the context of federally-assisted or federally-conducted programs, including complaints made by USDA employees, applicants for employment and USDA program participants and customers.

We have performed, during the last 3 fiscal years, six reviews of the Department's civil rights operations as it relates to program complaint processing. We reported the results of our reviews of the Department's system for processing civil rights complaints. Among other issues, we determined that CR needed to eliminate the backlog of civil rights program complaints, provide adequate training to its staff, and that the Farm Service Agency needed to improve its technical assistance to minority farmers applying for loans.

Currently, at the request of the Secretary, we are reviewing the Department's system for processing employment complaints, and assessing the implementation of our prior recommendations related to program complaints. Our reviews are part of a continuing evaluation of the Department's civil rights complaint system, performed at the direction of the Secretary and the Assistant Secretary for Administration. Several of our previous recommendations have not been fully implemented and we are continuously meeting with agency officials to resolve outstanding recommendations.

CHIEF FINANCIAL OFFICER

11. Financial Management

Financial management in the Department is of major importance; USDA's balance sheet, for example, exceeds $121 billion. Financial management within the Department has not, however, been sufficient to provide assurances that its consolidated financial statements are reliable and presented in accordance with generally accepted accounting principles (Audit Report No. 50401-30-FM). For the past 5 years our disclaimer of opinion means the Department does not know whether it correctly reported all collected monies, the cost of its operations, or other meaningful measure of financial performance. For example, we have been unable to substantiate the Department's fund balance with Treasury, reported at over $37 billion, because reconciliation procedures were still not sufficient to enable the OCFO to adequately research and reconcile differences. An effective and timely implementation of the new Foundation Financial Information System (FFIS) is needed to improve financial management within the Department and assure managers have reliable data to manage their multi-billion dollar programs. However, delays and substantial FFIS implementation problems has had a significant impact on the Department's improvement of its financial information (Audit Report No. 50801-7-FM). USDA continues to report in its annual Financial Managers' Financial Integrity Act

Report that the Department cannot provide assurance that, as a whole, its financial management systems comply with statutory requirements.

Concerning material components within the Department, FS was unable to produce financial statements for FY 1996, and even though financial statements were produced for FY 1997 and FY 1998, the statements were unreliable due to the absence of an integrated general ledger and supporting subsidiary records along with significant financial system weaknesses (Audit Report No. 08401-8-AT). Our annual audit of the Rural Development mission areas resulted in a qualified opinion for its FY 1998 financial statements due to continuing unreliable account balances for credit program receivables and estimated losses on loan guarantees stated at about $55 billion and $460 million, respectively (Audit Report No. 50401-28-FM). Our annual audit of the Commodity Credit Corporation's financial statements resulted in a disclaimer of opinion for FY 1998 because the Corporation was unable to provide, in a timely manner, sufficient evidential matter to substantiate account balances related to direct and guaranteed credits to foreign countries and other material line items on the financial statements (Audit Report No. 06401-9-FM).

In addition to our audits of the Department's financial statements, we have performed special reviews and provided consulting services to the agencies, particularly FS, to strengthen their financial management. We continue to monitor and report concerns with the lack of timely corrective actions on long-standing material weaknesses and are working with agencies and the OCFO to resolve recommendations.

CHIEF INFORMATION OFFICER

12. Information Resources Management

Information technology, with annual expenditures of over $1 billion, is critical to the delivery of USDA programs. However, security practices lag behind the technological advancements. Agencies' mission critical systems and networks are exposed to an unprecedented level of risk. We completed an audit of general controls including selected aspects of automated data processing security and controls at the National Finance Center. Audit Report No. 11401-4-FM identified security weaknesses which affected NFC's ability to protect OCFO/NFC's assets from fraud, waste and abuse. Currently we are completing a similar general controls review at the National Information Technology Center and an access control review of Rural Development's financial systems.

Another significant concern confronting all information technology users is the Year 2000 issue. OMB identified the food assistance and food safety inspection programs among its 42 high impact Federal programs that are critical to public health, safety, and well-being. FNS has lead responsibility for the food assistance, and FSIS is the lead for food safety inspection program. GAO determined that FNS and FSIS had no plans to perform joint tests with its data exchange partners and FSIS had not identified all agencies or countries involved in the food safety inspection program.